PRESS RELEASE

LIGHT VEHICLE MARKET

Forecast: China car market to shrink again in 2019

LMC Automotive cuts outlook for the world's largest car market, predicting a second-consecutive contraction in 2019 and citing potential for further weakness

Shanghai / Oxford, 27 June 2019. LMC Automotive has lowered its light vehicle (LV) sales forecast for China through 2025. Blaming tougher emission laws, disappointing government support and waning consumer confidence exacerbated by trade dispute risks, the market intelligence and forecasting specialist now sees LV turnover falling for the second year in a row in 2019 before recovering gradually.

For 2019, LMC Automotive anticipates a 5% year-on-year drop in sales of vehicles under 6 tonnes in the Middle Kingdom to 26.3 million units, down from the previous forecast in May of 27.7 million and flat growth. That follows a 3% decline in 2018 – the market's first contraction since the 1990s. Modest growth should return in 2020, but annual LV sales will not recover to 2017 levels until 2021.

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"The single most important factor is the emissions regime, which has had a far more negative impact than anticipated," says Alan Kang, a Shanghai-based senior market analyst at LMC Automotive. The China VI standard – largely equivalent to Euro VI – goes into force on 1 July in regions representing 63% of the Chinese LV market. Dealership inventories of China V models, shunned by buyers, have piled up, hitting wholesale turnover from distributors lacking capacity and unwilling to purchase new China VI models. “This, in turn, has forced carmakers to cut production.”

Consumers were also hoping to see the government revive generous purchase incentives. They have been disappointed. Two key elements of a proposed package to spur car sales – increasing the number of new car licenses by half in major cities (incl. Beijing and Shanghai) and re-introducing purchase duty discounts in rural areas – were
left out of the final policy published earlier in June. This will hit 2019 LV sales to the
tune of almost 1m units.

"The incentives do not support a strong rebound and are unlikely to give the market
the kind of boost we previously expected," says Kang.

The ongoing trade dispute with the U.S., meanwhile, risks further dampening
consumer spending. It has accelerated the shift by multinationals of manufacturing
(and jobs) to places like Vietnam with cheaper labour. The uncertainty over U.S. policy
could drag on past the 2020 presidential elections, too, delaying investment in China
and preventing a major recovery in LV sales through 2021. Other potential threats
include additional trade restrictions by the U.S. as well as rising oil prices and Brexit.

On the brighter side, an end to the trade tensions would considerably enhance the
outlook for LV sales. The current situation isn't as bad as the overall numbers indicate,
either: Retail sales* were down only 2% year-on-year in May (compared to a wholesale
figure of -17%) and are expected to improve in June, offering hope for a reduction in
dealer inventories and a more robust LV market following the summer vacation
season. And China still offers big potential in the longer term, with vehicle density well
below that of mature markets.

As for European carmakers, premium brands BMW and Mercedes-Benz continue to
buck the current negative trend despite increasing competition from Chinese
carmakers, unlike mainstream manufacturers like Volkswagen and PSA Peugeot
Citroen. "VW is also suffering from high inventories," says Kang, "but still has a very
strong brand in China."

* Refers to domestically made passenger cars

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About LMC Automotive

LMC Automotive is the leading independent and exclusively automotive focused
provider of global forecasting and market intelligence in the areas of vehicle sales,
production, powertrains and electrification. Highly respected for its responsive
customer support, the company's client base from around the globe includes car and
truck makers, component manufacturers and suppliers, financial, logistics and
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